PRINCE ALBERT MUNICIPALITY

BUDGET POLICY

MAY 2020

BUDGET POLICY

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PRINCE ALBERT MUNICIPALITY
BUDGET POLICY

1. OBJECTIVE

The objective of this policy is to set out the budgeting principles which the municipality will follow in preparing each annual budget, as well as the role of the mayor and responsibilities of the chief financial officer in compiling such budget.

2. COMPLIANCE WITH LEGAL PROVISIONS

In the process of preparing the budget, the municipality, its mayor, political office bearers, municipal manager, chief financial officer and other officials shall comply with all relevant legal requirements, including in particular:

(1) the provisions of Chapter 4 (Sections 15 to 33) of the Local Government: Municipal Finance Management Act, 2003 ("the MFMA"), as well as Sections 42, 43, 53, 54,55, 68, 69, 70, 71, 72, 75, 80, 81 and 83 thereof; and

(2) the Municipal Budget and Reporting Regulations ("the Regulations") published in terms of Section 168 of the MFMA under General Notice 393 of 2009; and

(3) all relevant budget-related circulars and notices issued by the National Treasury.

3. ROLE OF THE MAYOR

3.1 BUDGET STEERING COMMITTEE

(1) The mayor of the municipality shall establish a Budget Steering Committee as required by Regulation 4 of the Regulations.

(2) The function of the Budget Steering Committee is:

(a) to provide technical assistance to the mayor in discharging the responsibilities set out in Section 53 of the MFMA;

(b) to formulate the proposed policies for framing the upcoming annual budget; and

(c) to steer the budget process through to completion.

3.2 OTHER RESPONSIBILITIES OF MAYOR

(1) As provided in Section 21(1) of the MFMA, the mayor is responsible for :

(a) Co-ordinating the process for preparing the annual budget and for reviewing the Integrated Development Plan ("IDP") and budget related-policies;

(b) Tabling in the council a time schedule outlining key deadlines.

(2) In addition, as provided in Section 21(2) of the MFMA, for purposes of preparing the budget, the mayor is required to:

(a) Take into account the municipality's IDP;

(b) Take all reasonable steps to ensure that the municipality revises the IDP;

(c) Take into account the national budget, the provincial budget, the national government's fiscal and macro-economic policy, the annual Division of Revenue Act and any agreements reached in the budget forum;

(d) Consult Central Karoo District Municipality, the provincial treasury, and when requested, the national treasury, and any national organs of state as may be prescribed;

(e) Provide on request information to the National Treasury and other organs of state and other municipalities affected by the budget.

(3) The municipal manager, the chief financial officer and all other managers who are directly accountable to the municipal manager shall provide technical and administrative support to the mayor in the preparation and approval of the annual and adjustment budgets, as well as the consultative process and the furnishing of information as contemplated above.

4. BUDGETING PRINCIPLES TO BE FOLLOWED

4.1 ZERO BASE BUDGETING

Except in so far as capital projects represent a contractual commitment to the municipality extending over more than one financial year, the annual capital budget shall be prepared from a zero base.

4.2 CAPITAL BUDGET TO BE CONSIDERED FIRST

(1) The capital budget component of the annual or adjustments budget shall only be approved by the council if it has been properly balanced, that is, if the sources of finance which are realistically envisaged to fund the budget equal the proposed capital expenses.

(2) Clear evidence of funding must be provided. Such evidence includes gazetted allocations and clear letters of commitment from Provincial Government or other bodies. No scheme will be included in the capital programme until the chief financial officer is satisfied with the evidence provided.

(3) A business plan must be submitted with every capital project and every project must be accompanied by a cash flow budget as prescribed in the budget reforms.

(4) Before approving the capital budget component of the annual or adjustments budget, the council shall consider the impact on the present and future operating budgets of the municipality in relation to finance charges to be incurred on external loans, depreciation of fixed assets, maintenance of fixed assets, and any other ordinary operational expenses associated with any item on such capital budget.

(5) In addition, the council shall consider the likely impact of such operation expenses – net of any revenues expected to be generated by such item – on future property rates and service tariffs.

4.3 CAPITAL REPLACEMENT RESERVE

(1) The council shall establish a capital replacement reserve for the purpose of financing capital projects and the acquisition of capital assets.

(2) Such reserve shall be established from the following sources of revenue:

(a) unappropriated cash-backed surpluses to the extent that such surpluses are not required for operational purposes;

(b) interest on the investments of the asset financing reserve, appropriated in terms of the banking and investments policy;

(c) further amounts appropriated as contributions in each annual or adjustments budget; and

(d) net gains on the sale of fixed assets in terms of the fixed asset management and accounting policy.

4.4 BUDGET TO BE BALANCED

(1) Each annual and adjustments budget shall, if not balanced, at least reflect realistic excess, however nominal, of current revenues over expenses.

(2) Any unappropriated surplus from previous financial years, even if fully cash- backed, shall not be used to balance any annual or adjustments budget, but shall be appropriated, as far as it is not required to finance the payment of operating creditors or for other operational purposes, to the municipality's capital replacement reserve.

(3) An impending operating deficit shall be addressed in an adjustments budget in accordance with Section 28 of the MFMA, but if an operating deficit arises at the end of a financial year, notwithstanding the precautionary measures adopted by the council, such deficit shall immediately be made good in the annual or adjustments budget for the ensuing financial year, and shall not be offset against any unappropriated surplus carried forward from preceding financial years.

4.5 PROVISIONS FOR LEAVE, BAD DEBTS AND OBSOLESCENCE OF STOCK

(1) The municipality shall establish and maintain a provision for accrued leave entitlements equal to 100% of the accrued leave entitlement of officials as at 30 June of each financial year, and shall budget appropriately for contributions to such provision in each annual and adjustments budget.

(2) The municipality shall establish and maintain a provision for bad debts in accordance with its rates and tariffs policies, and shall budget appropriately for contributions to such provision in each annual and adjustments budget.

(3) The municipality shall establish and maintain a provision for the obsolescence and deterioration of stock in accordance with its stores management policy, and shall budget appropriately for contributions to such provision in each annual and adjustments budget.

4.6 FUNDING OF EXPENDITURE

(1) In accordance with the provisions of Section 18(1) of the MFMA, an annual budget may be funded only from:

(a) Realistically anticipated revenues to be collected;

(b) Cash-backed accumulated funds from previous years' surpluses not committed for other purposes;

(c) Borrowed funds, but only for capital projects.

(2) As required by Regulation 10(1) of the Regulations, the funding of an annual budget must be estimated in accordance with the assumptions and methodologies set out in the funding and reserves policy and must be consistent with the trends, current and past, of actual funding collected and received

(3) Realistically anticipated revenues to be received from national or provincial government, national or public entities, other municipalities, municipal entities, donors or any other source may be included in an annual budget only if there is acceptable documentation that guarantees the funds, as provided by Regulation 10 (2) of the Regulations.

(4) All expenses, excluding provision for doubtful debts and including depreciation expenses, shall be cash-funded. The cash received in respect of depreciation expenses on fixed assets financed from external borrowings shall be transferred to the investments created to redeem such borrowings.

4.7 DEPRECIATION AND FINANCE CHARGES

(1) Finance charges payable by the municipality shall be apportioned between departments or votes on the basis of the proportion at the last balance sheet date of the carrying value of the fixed assets belonging to such department or vote to the aggregate carrying value of all fixed assets in the municipality. However, where it is the council's policy to raise external loans only for the financing of fixed assets in specified council services, finance charges shall be charged to or apportioned only between the departments or votes relating to such services.

(2) Depreciation and finance charges together shall not exceed 20% of the aggregate expenses budgeted for in the operating budget component of each annual or adjustments budget.

4.8 ALLOCATION OF INTEREST EARNED

The allocation of interest earned on the municipality's investments shall be budgeted for in terms of the banking and investment policy.

4.9 PROVISION FOR MAINTENANCE OF FIXED ASSETS

The municipality shall adequately provide in each annual and adjustments budget for the maintenance of its fixed assets in accordance with its fixed asset management and accounting policy. At least 5% of the operating budget component of each annual and adjustments budget shall be set aside for such maintenance.

4.10 ALLOWABLE BUDGETARY INCREMENT

(1) In the preparation of the draft operating budget component of the annual budget, the allowable budgetary increment shall relate to the total amount provided for each budget vote, and the director, service or function concerned shall have the right to allocate the total budgeted amount to the line-items within such vote, except in so far as the line-item provisions relate to matters determined by the chief financial officer in terms of the municipality's approved policies and contractual and statutory commitments (for example, depreciation charges, finance charges, insurance costs, skills development levies payable).

(2) Notwithstanding the preceding principle, the budget for salaries, allowances and salaries-related benefits shall be separately prepared, and shall not exceed 35% of the aggregate operating budget component of the annual or adjustments budget. For purposes of applying this principle, the remuneration of political office bearers and other councillors shall be excluded from this limit.

4.11 ALLOCATION OF THE AGGREGATE BUDGET

(1) The head of the department, service or function to which each budget vote relates shall justify the allocation of the aggregate budget for such vote to the various line-items within the vote to the portfolio committee responsible for the department, service or function concerned.

(2) In motivating the allocations made to and within the vote, the head of department, service or function concerned shall provide the relevant portfolio committee with appropriate quarterly performance indicators and service delivery targets pertaining to the budget.

(3) Such indicators and targets shall be prepared with the approval of the municipal manager and the mayor.

4.12 TARGETED STRUCTURE OF REVENUE BUDGET

(1) In preparing its revenue budget, the municipality shall strive to maintain the aggregate revenues from property rates, taking into consideration that the contribution from trading services be maintained to a maximum of 20 % of the trading services' turnover.

(2) When considering the draft annual budget, the council shall consider the impact, which the proposed increases in rates and service tariffs will have on the monthly municipal accounts of households in the municipal area. The impact of such increases shall be assessed on the basis of a fair sample of randomly selected accounts.

(3) Because households have no mechanism for passing on such increases to other parties, but must fully absorb the increases concerned, the council will aim to ensure that the average additional impact of such increases is not more than the relevant increase in the consumer price index.

5. RESPONSIBILITIES OF THE CHIEF FINANCIAL OFFICER

5.1 PREPARATION OF DRAFT ANNUAL AND ADJUSTMENTS BUDGETS

(1) Without derogating in any way from the legal responsibilities of the municipal manager as accounting officer, the chief financial officer shall be responsible for preparing:

(a) the draft annual capital and operating budgets (including the budget components required for the ensuing financial years);

(b) any required adjustments budgets; and

(c) the projections of revenues and expenses for the service delivery and budget implementation plan (including the alignment of such projections with the cash management programme prepared in terms of the banking and investments policy),

and shall be accountable to the municipal manager in regard to the performance of these functions.

(2) The municipal manager shall delegate to the chief financial officer all such powers as may be necessary for the chief financial officer to perform the abovementioned function.

(3) The municipal manager shall ensure that all heads of department provide the inputs required by the chief financial officer for the purpose of preparing the budget.

5.2 BUDGET TIMETABLE

(1) The chief financial officer shall draft the budget timetable for the ensuing financial year for the mayor's approval

(2) Such timetable shall indicate:

(a) the target dates for the draft revision of the annual budget and the preparation of the annual budget for the ensuing financial year, which target dates shall follow the prescriptions of the Municipal Finance Management Act, and

(b) target dates for the submission of all the budget-related documentation to the mayor, finance committee, executive committee and council.

(3) The chief financial officer shall be responsible for ensuring that the time schedule is adhered to.

5.3 SEQUENCE OF PREPARING BUDGETS

(1) The annual capital and operating budgets shall be prepared concurrently, but the capital budget must be finalised before the operating budget so as to ensure that the full operating costs of the capital programme are reflected in the operating budget.

(2) The operating budget must reflect the full costs arising from the capital budget for:

(a) depreciation charges;

(b) repairs and maintenance expenses;

(c) interest payable on external borrowings; and

(d) other operating expenses.

5.4 VOTES AND LINE-ITEMS

(1) In preparing the operating budget, the chief financial officer shall determine the number and type of votes to be used and the line-items to be shown under each vote, provided that in so doing the chief financial officer shall:

(a) properly and adequately reflect the organisational structure of the municipality, and

(b) comply, in so far as the organisational structure permits, with the prescribed budget format of National Treasury.

(2) The chief financial officer shall determine the depreciation expenses to be charged to each vote, and the apportionment of interest payable to each vote.

5.5 DETERMINATION OF GROWTH FACTORS

The chief financial officer shall, with the approval of the mayor and the municipal manager and having regard to the municipality's current financial performance, determine the recommended aggregate growth factor(s) using the National Treasury Guidelines.

5.6 MONTHLY BUDGET REPORTS

(1) The chief financial officer shall compile monthly budget reports, with recommendations, comparing actual results with budgeted projections

(2) The heads of department shall timeously and adequately furnish the chief financial officer with all explanations required for deviations from the budget.

(3) The chief financial officer shall submit these monthly reports to the mayor, finance committee and executive committee, and all other prescribed parties, in accordance with the prescriptions of the Municipal Finance Management Act.

5.7 TECHNICAL AND ADMINISTRATIVE SUPPORT TO MAYOR

The chief financial officer shall provide technical and administrative support to the mayor in the preparation and approval of the annual and adjustment budgets, as well as in the consultative processes, which must precede the approval of such budgets.

5.8 COMPLIANCE WITH LEGAL PROVISIONS AND POLICIES AND ALIGNMENT WITH IDP

(1) The chief financial officer shall ensure that the annual and adjustments budgets:

(a) comply with the requirements of the National Treasury;

(b) reflect the budget priorities determined by the mayor;

(c) are aligned with the IDP; and

(d) comply with all budget-related policies, and

(2) The chief financial officer shall make recommendations to the mayor on the revision of the IDP and the budget-related policies where these are indicated.

5.9 FINANCING OF CAPITAL BUDGET

The chief financial officer shall make recommendations on the financing of the draft capital budget for the ensuing and future financial years

- indicating the impact of viable alternative financing scenarios on future expenses, and
- specifically commenting on the relative financial merits of internal and external financing options.

5.10 OVERHEAD EXPENSES

(1) The chief financial officer shall determine the basis for allocating overhead expenses not directly chargeable to votes.

(2) The expenses associated with the democratic process shall be allocated to a separate vote, and shall not be charged out as an overhead.

5.11 INDIGENT RELIEF

The chief financial officer shall ensure that the cost of indigence relief is separately reflected in the appropriate votes.

5.12 ALLOCATIONS FROM OTHER ORGANS OF STATE

The chief financial officer shall ensure that:

(1) the allocations from other organs of state are properly reflected in the annual and adjustments budget; and

(2) the estimated expenses against such allocations (other than the equitable share) are appropriately recorded.

5.13 REVIEW OF POLICY

This policy is to be reviewed annually by the Budget Steering Committee prior to the budget process commencing.

5.14 RESPONSIBILITY FOR IMPLEMENTATION

The municipal manager shall be responsible for the implementation of this policy, provided that the municipal manager shall delegate such powers to the chief financial officer as required under paragraph 5.1 (2) of this policy.

5.15 COMMENCEMENT

This policy shall come into force on 1 JULY 2020.

6 BUDGET TRANSFERS AND VIREMENTS

The municipality does not allow budget transfers within the same vote. Any changes shall be made using the adjustment budget process.

6.1 FRAMEWORK FOR UNFORESEEN AND UNAVOIDABLE EXPENDITURE

(a) The mayor of a municipality may authorize expenditure in terms of section 29 of the Act only if –

a. the expenditure could not have been foreseen at the time the annual budget of the municipality was passed; and

b. the delay that will be caused pending approval of an adjustments budget by the municipal council in terms of section 28(2)(c) of the Act to authorize the expenditure may –

i. results in significant financial loss for the municipality;

ii. cause a disruption or suspension, or a serious threat to the continuation, of a basic municipal service;

iii. lead to loss of life or serious injury or significant damage to property; or

iv. obstruct the municipality from instituting or defending legal proceedings on an urgent basis.

(b) The mayor of a municipality may not authorize expenditure in terms of section 29 of the Act if the expenditure –

a. was considered by the council, but not approved in the annual budget or an adjustments budget;

b. is required for –

i. price increases of goods or services during the financial year;

ii. new municipal services or functions during the financial year;

iii. the extension of existing municipal services or functions during the financial year;

iv. the appointment of personnel during the financial year; or

v. allocating discretionary appropriations to any vote during the financial year; or

c. would contravene any existing council policy; or

d. is intended to ratify irregular or fruitless and wasteful expenditure.

6.2 ADJUSTMENT BUDGET

(a) Each adjustments budget shall reflect realistic excess, however nominal, of current revenues over expenses.

(b) The chief financial officer shall ensure that the adjustments budgets comply with the requirements of the National Treasury, reflect the budget priorities determined by the executive mayor, are aligned with the IDP, and comply with all budget-related policies, and shall make recommendations to the executive mayor on the revision of the IDP and the budget-related policies where these are indicated.

(c) Council may revise its annual budget by means of an adjustments budget as regulated.

(d) The Accounting Officer must promptly adjust its budgeted revenues and expenses if a material under-collection of revenues arises or is apparent.

(e) The Accounting Officer shall appropriate additional revenues, which have become available but only to revise or accelerate spending programmes already budgeted for or any areas of critical importance identified by Council in compliance with Item 2 of Section 10.

(f) The Council shall in such adjustments budget, and within the prescribed framework, confirm unforeseen and unavoidable expenses on the recommendation of the Executive Mayor.

(g) Only the Executive mayor shall table an adjustment budget. Adjustments budget shall be done once as part of the mid-year budget performance assessment:

(h) An adjustments budget must contain all of the following:

a. an explanation of how the adjustments affect the approved annual budget;

b. appropriate motivations for material adjustments; and

c. an explanation of the impact of any increased spending on the current and future annual budgets.

(i) Any unappropriated surplus from previous financial years, even if fully cash- backed, may not be used to balance any adjustments budget, but may be appropriated to the municipality's capital replacement reserve.

(j) Municipal taxes and tariffs may not be increased during a financial year except if required in terms of a financial recovery plan and or per National Treasury Regulations.

(k) Unauthorised expenses may be authorised in an adjustments budget.

ANNEXURE: LEGAL REQUIREMENTS

1. The Municipal Budget and Reporting Regulations (“the Regulations”) published in terms of Section 168 of the MFMA under General Notice 393 of 2009; and

2. Chapter 4 of the Municipal Finance Management Act: Act 56 of 2003, as amended periodically, is the portion of the act that stipulates the budgeting methodology that must be followed in the municipality as from 1 July 2004. The following sections of the Act are of specific interest regarding the budget:

Section 15: Appropriation of funds for expenditure

Expenses may only be incurred in terms of the approved annual budget (or adjustments budget) and within the limits of the amounts appropriated for each budget vote.

Section 16: Annual budgets

The Council of the municipality must approve the annual budget before the start of the financial year to which it relates.

The Mayor must table the annual budget at least ninety days before the start of such financial year.

The capital budget may extend over three years, provided that it is separated into annual appropriations for that period.

Section 17: Contents of annual budgets and supporting documents

The budget must be in the prescribed format, and must be divided into a capital and an operating budget.

The budget must reflect the realistically expected revenues by major source for the budget year concerned.

The expenses reflected in the budget must be divided into votes.

The budget must also contain the foregoing information for the two financial years following the financial year to which the budget relates, as well as the actual revenues and expenses for the year before the current year, and the estimated revenues and expenses for the current year.

The budget must be accompanied by all the following documents:

- draft resolutions approving the budget and levying property rates, other taxes and tariffs for the financial year concerned;
- draft resolutions (where applicable) amending the IDP and the budget-related policies;
- measurable performance objectives for each budget vote, taking into account the municipality’s IDP;
- the projected cash flows for the financial year by revenue sources and expenditure votes;

- any proposed amendments to the IDP;
- any proposed amendments to the budget-related policies;
- the cost to the municipality of the salaries, allowances and other benefits of its political office bearers and other councillors, the municipal manager, the chief financial officer, and other senior managers;
- particulars of any proposed allocations or grants to other municipalities, municipal entities, external mechanisms assisting the municipality in service delivery, other organs of state, and organisations such as NGOs, welfare institutions and so on;
- particulars of the municipality's investments; and
- various information in regard to municipal entities under the shared or sole control of the municipality.

Section 18: Funding of expenditures

The budget may be financed only from:

- realistically expected revenues, based on current and previous collection levels;
- cash-backed funds available from previous surpluses where such funds are not required for other purposes; and
- borrowed funds in respect of the capital budget only.

Section 19: Capital projects

A municipality may spend money on a capital project only if the money for the project (including the cost of any required feasibility studies) has been appropriated in the capital budget.

The total cost of the project must also be approved by the Council.

The envisaged sources of funding for the capital budget must be properly considered and the Council must be satisfied that this funding is available and has not been committed for other purposes.

Before approving a capital project, the Council must consider the projected cost of the project over all the ensuing financial years until the project becomes operational, as well as the future operational costs and any revenues which may arise in respect of such project, including the likely future impact on property rates and service tariffs.

Section 20: Matters to be prescribed

The Minister of Finance must prescribe the form of the annual budget, and may further prescribe a variety of other matters, including the inflation projections which the municipality must use in compiling its budget.

The Minister may also prescribe uniform norms and standards in regard to the setting of tariffs where a municipality entity or other external mechanisms is used to perform a municipal service; and may also take appropriate steps to ensure that a municipality does not, in exceeding its fiscal powers, materially and unreasonably prejudice national economic policies (particularly on

inflation, administered pricing and equity), economic activities across municipal boundaries, and the national mobility of goods, services, capital or labour.

Section 21: Budget preparation process

The Mayor of the municipality must:

- Co-ordinate the processes for preparing the annual budget, and for reviewing the municipality's IDP and budget-related policies to ensure that the budget, the IDP, and the policies are mutually consistent and credible.
- At least ten months before the start of the ensuing financial year, table in the Council the time schedule with key deadlines for the preparation, tabling and approval of the following year's annual budget, the review of the IDP and budget-related policies, and the consultative processes required in the approval of the budget.
- When preparing the annual budget, take into account the municipality's IDP, the national budget, provincial budget, the National Government's fiscal and macro-economic policies, and the annual Division of Revenue Act.
- Take all reasonable steps to ensure that the municipality revises its IDP in line with realistic revenue and expenditure projections for future years.
- Consult the district municipality (if it is a local municipality) and all other local municipalities in the district, and all other local municipalities in the district if it is a district municipality.
- Consult the National Treasury when requested, the Provincial Treasury, and such other provincial and national organs of state as may be prescribed.
- Provide, on request, any budget-related information to the National Treasury, other national and provincial organs of state, and any other municipality affected by the budget.

Section 22: Publication of annual budgets

Immediately after the annual budget has been tabled, the Municipal Manager must make this budget and other budget-related documentation public, and must invite the local community to submit representations in regard to such budget.

The Municipal Manager must also immediately submit the tabled budget in both printed and electronic formats to the National Treasury, the Provincial Treasury, and in either format to prescribed national and provincial organs of state and other municipalities affected by the budget.

Section 23: Consultations on tabled budgets

After the budget has been tabled, the Council of the municipality must consider the views of the local community, the National Treasury, the Provincial Treasury, and any provincial or national organs of state or municipalities which have made submissions on the budget.

After considering these views, the Council must give the Mayor the opportunity to respond to the submissions received, and – if necessary – revise the budget and table the relevant amendments for consideration by the Council.

The National Treasury may issue guidelines on the manner in which the Council must process the annual budget, including guidelines on the formation of a committee of the Council to consider the budget and hold public hearings. Such guidelines shall be binding only if they are adopted by the Council.

Section 24: Approval of annual budgets

The Council must consider approval of the budget at least thirty days before the start of the financial year to which such budget relates.

The budget must be approved before the start of such financial year, and the resolutions and performance objectives referred to in Section 17 must simultaneously be adopted.

Section 25: Failure to approve budget before start of budget year

This Section sets out the process which must be followed if the budget is not approved in the normal course of events. Briefly the Council must reconsider and vote on the budget, or an amended version of the budget, every seven days until a budget is approved. The Mayor must immediately inform the MEC for Local Government if the budget is not adopted by the start of the budget year, and may request a provincial intervention.

Section 26: Consequences of failure to approve budget before start of budget year

The provincial executive must intervene in any municipality which has not approved its annual budget by the start of the relevant financial year. Such intervention must entail the taking of any appropriate steps to ensure a budget is approved, including dissolving the Council and appointing an administrator until a new Council can be elected, and approving a temporary budget until such new Council can adopt a permanent budget for the municipality. The Section also imposes restrictions on what may be spent in terms of such temporary budget.

Section 27: Non-compliance with provisions of this chapter

This Section sets out the duties of the Mayor to report any impending non-compliance and the general consequences of non-compliance with the requirements of the various foregoing prescriptions.

Section 28: Municipal adjustments budgets

A municipality may revise its annual budget by means of an adjustments budget.

However, a municipality must promptly adjust its budgeted revenues and expenses if a material under-collection of revenues arises or is apparent.

A municipality may appropriate additional revenues which have become available but only to revise or accelerate spending programmes already budgeted for.

A municipality may in such adjustments budget, and within the prescribed framework, authorise unforeseen and unavoidable expenses on the recommendation of the Mayor.

A municipality may authorise the utilisation of projected savings on any vote towards spending under another vote.

Municipalities may also authorise the spending of funds unspent at the end of the previous financial year, where such under-spending could not reasonably have been foreseen at the time the annual budget was approved by the Council.

Only the Mayor of the municipality may table an adjustments budget. Such budget may be tabled whenever necessary, but limitations on the timing and frequency of such tabling may be prescribed.

An adjustments budget must contain all of the following:

- an explanation of how the adjustments affect the approved annual budget;
- appropriate motivations for material adjustments; and
- an explanation of the impact of any increased spending on the current and future annual budgets.

Municipal taxes and tariffs may not be increased during a financial year except if required in terms of a financial recovery plan.

Section 29: Unforeseen and unavoidable expenditure

In regard to unforeseen and unavoidable expenses, the following apply:

- the Mayor may authorise such expenses in an emergency or other exceptional circumstances;
- the municipality may not exceed a prescribed percentage of the approved annual budget in respect of such unforeseen and unavoidable expenses;
- these expenses must be reported by the Mayor to the next Council meeting;
- the expenses must be appropriated in an adjustments budget; and
- the adjustments budget must be passed within sixty days after the expenses were incurred.

Section 30: Unspent funds

The appropriation of funds in an annual or adjustments budget will lapse to the extent that they are unspent by the end of the relevant budget year, but except for the expenses referred to above in Section 16.

Section 31: Shifting of funds between multi-year appropriations

If the funds for a capital project have been appropriated for more than one financial year (see Section 16) these expenses may exceed the appropriation for any one financial year, provided:

- the increase is not more than 20% of that financial year’s allocation;
- the increase is funded in the next financial year’s appropriations;

- the Municipal Manager certifies that actual revenues are expected to exceed budgeted revenues, and that enough funds will be available to finance such increased appropriation without incurring further borrowing beyond the annual budget limit;
- the Mayor gives prior written approval for such increased appropriation; and
- all the above documentation is provided to the Auditor-General.

Section 32: Unauthorised, irregular or fruitless and wasteful expenditure

Unauthorised expenses may be authorised in an adjustments budget.

Section 33: Contracts having future budgetary implications

Contracts extending beyond one financial year may be entered into by a municipality, but if such contract extends beyond the three years covered in the annual budget, the municipality may enter into such contract only if:

- The Municipal Manager, at least sixty days before the Council meeting at which the contract is to be approved, has made the contract public, with an information statement summarising the municipality's obligations, and inviting the local community and other interested parties to submit comments or make representations.
- The Municipal Manager solicits the views and recommendations of the National Treasury and Provincial Treasury in respect to such contract, as well as those of the National Department of Provincial and Local Government, and any national department concerned with water, sanitation or electricity, if the contract relates to any of these services.
- The Council has taken into account the projected financial obligations in regard to such contract, the impact on tariffs, and the views and comments received from all the foregoing parties.
- The Council adopts a resolution determining that the municipality will secure a significant capital investment or derives a significant financial or economic benefit from the contract, and approves the entire contract exactly as it is to be executed.

A contract for purposes of this Section shall exclude any contract relating to the incurring of long-term debt by the municipality, employment contracts, contracts for categories of goods as may be prescribed, or contracts where the value of the contract is less than a prescribed value or a prescribed percentage of the annual budget.

Section 42: Price increases of bulk resources for provision of municipal services

National and provincial organs of state which supply water, electricity or any other bulk resources to municipalities or municipal entities for the provision of municipal services may increase the price of such resources only after doing all the following:

- The proposed increase must be submitted to the organ's executive authority and (where legislation so requires) to any regulatory agency for approval.
- At least forty days prior to the above submission the National Treasury and organised local government must be invited to submit written comments on the proposed increase.
- The executive authority, after taking into account the comments received, must table the price increase in Parliament or the provincial legislature, as the case may be, with a full motivation and certain other prescribed explanatory documentation.

Unless the Minister of Finance otherwise directs, a price increase must be tabled on or before 15 March to take effect from 1 July of the same year. If it is tabled after 15 March it may only take effect from 1 July of the following year.

Section 43: Applicability of tax and tariff capping on municipalities

If a national or provincial organ of state is legislatively empowered to determine the upper limits of any municipal tax or tariff, such determination takes effect on the date specified in the determination, but provided that, unless the Minister of Finance otherwise directs:

- A determination promulgated on or before 15 March shall not take effect before 1 July of the same year.
- A determination promulgated after 15 March shall not take effect before 1 July of the following year.
- A determination shall not be allowed to impair a municipality's ability to meet any annual or periodic escalations in the payments it must make in respect of any contract legally entered into by a municipality.

Section 53: Budget processes and related matters

The Mayor of the municipality must:

- Provide general political guidance over the annual budget process and the priorities that guide the preparation of each budget.
- Co-ordinate the annual revision of the IDP, as well as the preparation of the annual budget, and determine how the IDP is to be taken into account or is to be revised for purposes of such budget.
- Take all reasonable steps to ensure that the Council approves the annual budget before the start of the financial year to which it relates, and that the municipality's service delivery and budget implementation plan is approved within twenty-eight days after the approval of the budget.
- Ensure that the annual performance agreements for the Municipal Manager and the senior managers of the municipality are linked to measurable performance objectives which are approved with the budget and the service delivery and budget implementation plan.

The Mayor must promptly report to the Council and the MEC for Local Government any delay in tabling the annual budget, approving the service delivery and budget implementation plan or signing the annual performance agreements.

The Mayor must further ensure that the service delivery targets and quarterly performance indicators, and the monthly projections of revenues and expenses in the service delivery and budget implementation plan, are made public not later than fourteen days after these matters have been approved; and that the performance agreements of the Municipal Manager and other senior officials are similarly made public not later than fourteen days after their approval.

Section 68: Budget preparation

The Municipal Manager must assist the Mayor in performing the assigned budgetary functions and must provide the Mayor with administrative support, operational resources and the information necessary to perform these functions.

Section 69: Budget implementation

The Municipal Manager is responsible for implementing the budget, and must take reasonable steps to ensure that:

- funds are spent in accordance with the budget;
- expenses are reduced if expected revenues are less than projected; and
- revenues and expenses are properly monitored.

The Municipal Manager must prepare any adjustments budget when such budget is necessary and submit it to the Mayor for consideration and tabling in Council.

The Municipal Manager must submit a draft service delivery and budget implementation plan to the Mayor fourteen days after the annual budget has been approved, and must also within the same period submit drafts of the annual performance agreements to the Mayor.

Section 70: Impending shortfalls, overspending and overdrafts

The Municipal Manager must report in writing to the Council any impending shortfalls in the annual revenue budget, as well as any impending overspending, together with the steps taken to prevent or rectify these problems.

Section 71: Monthly budget statements

The Municipal Manager must, not later than ten working days after the end of each calendar month, submit to the Mayor and Provincial Treasury a report in the prescribed format on the state of the municipality's budget for such calendar month, as well as on the state of the budget cumulatively for the financial year to date.

This report must reflect the following:

- actual revenues per source, compared with budgeted revenues;
- actual expenses per vote, compared with budgeted expenses;
- actual capital expenditure per vote, compared with budgeted expenses;
- actual borrowings, compared with the borrowings envisaged to fund the capital budget;
- the amount of allocations received, compared with the budgeted amount;
- actual expenses against allocations, but excluding expenses in respect of the equitable share;

- explanations of any material variances between the actual revenues and expenses as indicated above and the projected revenues by source and expenses by vote as set out in the service delivery and budget implementation plan;
- the remedial or corrective steps to be taken to ensure that the relevant projections remain within the approved or revised budget; and
- projections of the revenues and expenses for the remainder of the financial year, together with an indication of how and where the original projections have been revised.

The report to the National Treasury must be both in electronic format and in a signed written document.

Section 54: Budgetary control and early identification of financial problems

On receipt of the report from the Municipal Manager, the Mayor must:

- consider the report;
- check whether the budget has been implemented in accordance with the service delivery and budget implementation plan;
- issue appropriate instructions to the Municipal Manager to ensure that the budget is implemented in accordance with this plan, and that the spending of funds and the collection of revenues proceed in accordance with the approved budget;
- identify any financial problems facing the municipality, as well as any emerging or impending financial problems; and
- submit to the Council within thirty days of the end of each quarter a report on the implementation of the budget and the financial state of affairs of the municipality.

If the municipality faces any serious financial problems, the Mayor must:

- promptly respond to and initiate the remedial or corrective steps proposed by the Municipal Manager, and
- alert the MEC for Local Government and the Council of the municipality to the problems concerned.

The Mayor may revise the details of the service delivery and budget implementation plan, but any revisions to the service delivery targets and quarterly performance indicators must be approved by the Council, and be supported by an adjustments budget. Any changes made to the projections of revenues and expenses as set out in the plan must promptly be made public.

Section 55: Report to provincial executive if conditions for provincial intervention exist

If the Council has not approved its annual budget by the first day of the financial year to which it relates, or if the municipality encounters serious financial problems, the Mayor must immediately report this matter to the MEC for Local Government and may recommend a provincial intervention.

Section 72: Mid-year budget and performance assessment

The Municipal Manager must assess the budgetary performance of the municipality for the first half of the financial year, taking into account all the monthly budget reports for the first six months, the service delivery performance of the municipality as against the service delivery targets and performance indicators which were set in the service delivery and budget implementation plan, and the past financial year's annual report and the progress made in resolving problems identified in such report.

The Municipal Manager must then submit a report on such assessment to the Mayor, the National Treasury and the Provincial Treasury.

The Municipal Manager may in such report make recommendations for adjusting the annual budget and for revising the projections of revenues and expenses set out in the service delivery and budget implementation plan.

In terms of Section 54(1) (f) the Mayor must promptly submit this assessment report to the Council of the municipality.

Section 73: Reports on failure to adopt or implement budget-related and other policies

The Municipal Manager must inform the Provincial Treasury, in writing, of any failure by the Council to adopt or implement any budget-related policy or a supply chain management policy, and of any non-compliance by an office bearer or political structure with such policy.

Section 75: Information to be placed on websites of municipalities

The Municipal Manager must place on the municipality's official website (inter alia) the following:

- the annual and adjustments budgets and all budget-related documents;
- all budget-related policies;
- the annual report;
- all performance agreements;
- all service delivery agreements;
- all long-term borrowing contracts;
- all quarterly reports submitted to the Council on the implementation of the budget and the financial state of affairs of the municipality.

Section 80: Establishment (of municipal budget and treasury office)

Every municipality must have a budget and treasury office comprising a Chief Financial Officer supported by appointed officials and contracted staff.

Section 81: Role of chief financial officer

The Chief Financial Officer is administratively in charge of the budget and treasury office and must, inter alia,

- assist the Municipal Manager in preparing and implementing the budget;
- perform such budgeting, financial reporting and financial management and review duties as are delegated by the Municipal Manager;
- account to the Municipal Manager for the performance of all the foregoing responsibilities.

Section 83: Competency levels of professional financial officials

The Municipal Manager, senior managers, the Chief Financial Officer and the other financial officials in a municipality must all meet prescribed financial management competency levels.